



LOS ANGELES UNIFIED SCHOOL DISTRICT
All Youth Achieving

Office of the Inspector General



Annual Report to the Board of Education

Fiscal Year 2015

LOS ANGELES UNIFIED SCHOOL DISTRICT

Office of the Inspector General

VISION

To be a proactive agency striving for excellence and continuous positive change in the management and programs of the Los Angeles Unified School District.

MISSION

To promote a culture of accountability, transparency, collaboration and integrity through the performance of audit and investigative services designed to drive continuous improvement, support effective decision making and detect and deter waste, fraud and abuse.

CORE VALUES

Accountability

Efficiency

Integrity





Los Angeles Unified School District

Office of the Inspector General

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Inspector General

July 31, 2015

Board of Education:

I am pleased to submit the Office of the Inspector General's (OIG) Annual Report. This report is required by the OIG's Charter and contains our accomplishments for the period July 1, 2014 through June 30, 2015.

The OIG conducts audits, contract audits, investigations, and special reviews of the Los Angeles Unified School District's (District) programs and operations to detect and prevent waste, fraud, and abuse, and to identify opportunities for improving efficiency and effectiveness. Our goal is to enhance the public's confidence in the District by assisting District management with making continuous improvements in its programs and operations, and fostering integrity in its personnel.

During FY 2015, the OIG issued **94** reports which collectively identified over **\$4.4 million** in monetary benefits. Our reports described actions that District management could take to strengthen controls, improve operations, manage risks and oversee contract activities more effectively. We also issued **77** due diligence reports to help District management with employment and contract evaluations.

On behalf of all OIG staff, I would like to thank the Board for its continued support of the Office of the Inspector General.

Ken Bramlett
Inspector General

About the Office of the Inspector General

The Board of Education of the Los Angeles Unified School District created the Office of the Inspector General in 1998, and the State legislature granted it certain statutory authorities and powers in 2000 and in 2002.

The OIG reports directly to the Board of Education. We conduct independent audits, reviews and investigations of District operations, contracts and vendors in order to:

- ✓ Find ways to improve processes, programs, functions and activities
- ✓ Provide information that supports effective decision making
- ✓ Identify real or potential misuse of District resources
- ✓ Prevent and detect waste, fraud and abuse within the District

Through our work, we strive to encourage a culture of accountability, transparency, collaboration and excellence and to assist the Board of Education and the Superintendent in their efforts to provide a high quality education for the students and parents of the Los Angeles Unified School District.

TABLE OF CONTENTS

A.	HIGHLIGHTS OF WORK PERFORMED AND BENEFITS PROVIDED	3
B.	BACKGROUND OF THE OIG	9
C.	ANALYSIS OF WORK PRODUCTION	16
D.	ECONOMIC IMPACT	19
E.	CONCLUSION	20
	APPENDIX 1: SIGNIFICANT REPORT SUMMARIES	21
	APPENDIX 2: REPORTS ISSUED INDEX	24
	APPENDIX 3: DISTRIBUTION LIST	27
	FRAUD HOTLINE	28

A. HIGHLIGHTS OF WORK PERFORMED AND BENEFITS PROVIDED

INTERNAL AUDIT ACTIVITIES

In FY 2015, the OIG performed internal audits of several projects that examined the District's oversight in various critical areas. For example, early in the fiscal year we issued our **Computer Inventory for Purchases Made Through Master Contracts with Vendors Arey Jones and Apple, Inc., report** and our **Inventory Control to Support the Common Core Technology Project Phase-1**.

Managing the acquisition, storage, and distribution of computers and mobile devices is critical to controlling costs, operational efficiency, and mission readiness. Accordingly, these two projects were conducted to provide insight into how well the District is performing its asset management and security responsibilities over portable computer devices, which include iPads, netbooks, laptops and desktops. We visited more than 100 schools as well as the District's Soto Street Warehouse in the performance of these projects.

What these two projects collectively found was that the District lacked adequate systems and processes to manage its computer and mobile device inventory. Specifically, there were no mechanisms to provide assurance that computer and mobile device purchases were recorded accurately, monitored properly, or secured physically to prevent waste, fraud and abuse related to these assets.

As a result, we recommended that the District acquire a centralized asset management application for its computers and mobile devices and that this centralized asset management application have capabilities beyond those offered by the Mobile Device Management software that the District currently owns. Specifically, the new centralized asset management system should have the capability to provide information about all additions to inventory levels, complete and accurate information about the location of all computer equipment and mobile devices, and complete and accurate information about the movement of these assets. We emphasized in our reports that the acquisition of this new asset management system should have clearly defined goals, requirements, and budget, as well as a project timeline and milestones. We also recommended that the District conduct a feasibility study on the use of a bar code scanning device (similar to the textbook inventory system) to track and monitor the computer inventory within the District. Finally, to better manage and control the District's computer inventory system, we recommended that the Procurement Services Division (PSD) and the Information Technology Division (ITD) should adopt a District policy requiring that all schools and offices purchase computers and mobile devices only through master contracts, versus using P-Card, Imprest Fund, or Low Dollar Value Purchase Orders.

The important issue of student safety was discussed in our **Traffic Safety and General Safety at Schools** audit. The Office of School Operations (School Operations), in collaboration with the Office of Environmental Health and Safety (OEHS), is responsible for taking the necessary steps to provide support and guidance to all schools to help create and maintain a safe and caring environment that supports learning and

achievement, and that helps to provide for the safety and security of all students, staff and visitors. This mission is supported through periodic inspections of existing District facilities.

In order to provide assurance to the Board of Education that School Operations and OEHS had effective internal controls in place to support a safe learning environment at District schools, we visited 28 schools to determine whether internal controls were working as intended to maintain adequate safety and security for students, teachers, parents, staff and all visitors on and around school premises. We found that overall, School Operations had taken reasonable steps to provide support and guidance to all schools to help create and maintain a safe and caring environment that supports learning and achievement. However, school traffic and general safety guidelines described in *Bulletin 4492.1- School Traffic Safety*, *Bulletin 4994.0- Vendors at or Near School Campuses* and various other District bulletins and directives were not being followed at some of the schools visited during this audit. This resulted in numerous undesirable conditions. For example, we observed a shortage of supervisory staff during scheduled school activities, a lack of monitoring over the loading and unloading of students at designated school bus zone areas, and unauthorized vendor activity near and around some of the schools. We provided District Management with seven recommendations to strengthen controls in the areas of the traffic safety and general safety at school sites. Management agreed to take action on all of the audit recommendations we provided.

Another important audit that was performed this year was of the **Annual Fire Alarm Systems Testing and Certification Program**. The District is responsible for the maintenance, testing, and certification of fire protection equipment at all school sites on an annual basis. The Los Angeles Fire Department's Chief's Regulation No. 4 specifies the minimum requirements for the periodic testing and repair of Fire Protection Equipment. This audit was important because District management had implemented new procedures in July 2012 to address its backlog of Fire Alarm systems to be certified, so one of the objectives of our audit was to determine whether the new certification program was more efficient when compared to the program that was previously in place. We were also interested in determining whether the Annual Fire Alarm Systems Testing and Certification Program had sufficient resources to certify all District fire alarm systems annually.

We found that the new procedures and testing program under the Inspection Department of the Maintenance and Operations (M&O) Branch was indeed more efficient for both testing and certification of fire alarm systems. Notwithstanding this, the resources allocated for the Annual Fire Alarm Systems Testing and Certification Program at the time of our audit were inadequate to fulfill the legal mandate of testing and certifying *all* fire equipment on an annual basis. In FY 2013, the District was able to test only 29% of all fire alarm systems in spite of the statutory requirement that 100% of all District fire alarm systems be tested on an annual basis.

There were several factors that contributed to this, including an inadequate number of Regulation No. 4 Certified Testers and factory-trained Electricians, along with

insufficient operational funding. Also, data in the MAXIMO system for the fire alarm systems testing and certification was not always accurate and complete. In order to address these conditions, we recommended that the District take a variety of actions, including: (i) providing adequate funds to carry out the Annual Fire Alarm Systems Testing and Certification Program, (ii) compiling a complete inventory list of fire alarm systems in the District, (iii) prioritizing schools that are within warranty period to be tested before the warranty period expires so that contractor-responsible deficiencies can be fixed by contractors, and (iv) implementing a plan to assist Electricians to obtain and maintain factory-trained certification status to increase the efficiency of fire alarm systems testing and certification operations.

Another important audit was of the District's **Small Business Enterprise (SBE) Program**. In February 2003, the Board of Education established a 25% SBE participation goal for all District contracts and procurement activities, including those opportunities in school construction and modernization. In addition, the Board resolved to adopt comprehensive small business participation policies at the time that the original Small Business Participation goal was established.

Oversight of the SBE Program was eventually moved under the Facilities Services Division (FSD) to increase the pool of qualified firms competing for District bond-funded contracts. The SBE Program provides Small Business Enterprise firms with information and access to compete for bond-funded construction, architecture, engineering, and professional services contracts. Also provided are referral services to technical and financial assistance, bonding and insurance, and certification services that promote the long-term competitive capacity of Small Business Enterprise firms.

In the course of this audit, we noted several positive conditions. For example, FSD had conducted several outreach sessions throughout the metropolitan region. Also, a website dedicated to the District's SBE Program was available, and the Facilities-Small Business Unit actively worked in partnership with other public agencies, non-profit business organizations, and private sector corporations to maximize its outreach to small business firms.

However, even with these favorable conditions, there were still important areas that required the District's attention. For example, the original 2003 SBE policy includes outdated language that needs to be updated. Also, SBE participation data that we reviewed was incomplete and contained some inaccuracies. Some inaccuracies included non-facilities contracts and certain types of facilities contracts were incorrectly excluded in the calculation of the SBE participation rate. Finally, the District needed to improve its monitoring to ensure that firms identified as being SBE's were in fact eligible for that designation.

We gave FSD and PSD five recommendations to improve controls, monitoring and reporting over the SBE Program. The recommendations included: (i) District management confirming whether the original 2003 SBE Board motion was intended to apply to both non-facilities and facilities type contracts, (ii) the FSD collaborating with PSD to issue a formal SBE Program policy that defined key areas of responsibility and

authority over the program, and (iii) the development of clear instructions that would guide the preparation of SBE participation data.

As a result of FY 2015 internal audit activities, the OIG identified over \$3.3 million in potential monetary benefits for the District. This amount consisted of potential cost savings and questioned costs identified in various audits.

District Management agreed with over **90%** of all internal audit recommendations.

CONTRACT AUDIT ACTIVITIES

During FY 2015, the OIG conducted audits of various contracts and issued 43 reports. The audit reports identified approximately \$1.1 million in questioned costs.

The OIG is confident that contract audit activities have served as a deterrent to contractors and to employees who would otherwise attempt to circumvent policies, procedures and the law. The following are some contract audit activities that supported the District's procurement efforts and School Construction, Repair & Modernization Programs during FY 2015.

Supporting School Construction, Repair & Modernization

We conducted a review of OEHS to determine if (i) OEHS staff and contract professionals complied with the policies and procedures for the management of the department's contractors, (ii) OEHS contract professionals have the required qualifications for their assigned positions, and (iii) work products prepared by OEHS contract professionals were properly supported and reviewed/approved by their supervisors. Our review found that OEHS staff and contract professionals complied with OEHS policies and procedures related to the review and approval of the MSA contractors' invoices and the assignment of work to the MSA contractors. We also found that OEHS contract professionals had the required qualifications for their assigned positions and their work products were properly supported and approved by their supervisors. However, OEHS staff was not performing audits of one out of every 10 MSA contractor invoices as required by the policies and procedures.

The District contracted with Hensel Phelps Construction Co. (Hensel) to develop and construct ***Central Region Elementary School No. 20*** and replacement playfields for ***Virgil Middle School*** for \$41,006,364. The objectives of our examination were to determine whether (i) the contingency/allowance disbursements and change orders costs reported by Hensel were adequately supported and allowable according to the terms of the contract, and (ii) the contract's current approved purchase price was fairly stated in all material respects. As a result of our examination, we found no noncompliance or questioned costs.

We conducted a review to determine if there were any conflicts of interest in the FSD's school construction, modernization and repair program as a result of retaining contract

professionals to provide construction management services. Our review found that the Deputy Director of Project Execution approved change orders and contingency allowance disbursements to his firm while he was a contract professional and during the 12 month cooling period after becoming a District employee. We also found that two contract professionals appointed to the positions of Senior Development Team Manager and Development Team Manager of Real Estate had participated in pre-construction activities on two projects which their firms subsequently provided the construction services. As a result of the audit and to prevent such conflicts of interest, FSD implemented policies and procedures that required contractors to have only one type of contract with the District: construction management, architecture/engineering services or construction services.

Supporting Facilities, Bond Related Program and Other Procurement Operations

We conducted a special review to evaluate the District's current system for procuring food. The review included an analysis of the new food procurement method versus the old method in terms of costs, reduction of waste, increase in meal participation, flexibility to respond to District needs, innovation and inventory control. The result of this review disclosed significant findings including (i) FSD ran significant operating deficits from FY 2010–FY 2013, (ii) meal participation decreased, (iii) excess and increased levels of inventory at the warehouse, and (iv) marketing funds generated from the categorical food contracts were mismanaged.

The District entered into an agreement with ARC to provide afterschool program services in the amount not-to-exceed \$13,967,445. We performed an incurred cost audit of the amounts billed by Arc (formerly known as Champions Sports) under this contract and of Arc's compliance with specified provisions of the contract. The results of our examination disclosed questioned costs of \$438,161 due to Arc's inability to provide supporting documentation and noncompliance issues we noted. The examination also disclosed other matters involving possible irregularities in one of the schools that ARC provided services.

The District entered into an agreement with EduCare Foundation (Educare) to provide after school program services in the amount of \$12,547,771. We performed an examination of this contract. The objectives of the examination were to determine whether (i) the amounts billed under that contract were adequately supported and allowable according to the terms of the contract and (ii) Educare Foundation complied with various compliance requirements according to the California Education Code. The results of our examination disclosed that Educare complied with the contract terms and conditions except for \$6,107 in questioned costs. We also noted several noncompliance issues relating to maintaining records for at least seven years; staff requirements; student-teacher ratios; and ensuring that supervisors signed sign-in sheets.

We conducted an audit of Five Star Gourmet Foods, Inc.'s (Five Star) \$50 million contract with the District to provide vegetarian entrees to the District's schools. Our audit found that Five Star owed the District \$688,954 for discounts and rebates for the period from July 1, 2011 through June 30, 2014.

We conducted a special review of ITD's implementation of **MiSiS**. Our review found that the District's project management of the MiSiS development and implementation was inadequate, resulting in the software being rolled out before the data integrity issues were resolved, end-to-end testing done, user acceptance testing completed, load testing properly carried out, and interfaces with other systems determined to be functional. In addition, ITD did not allocate adequate resources for program oversight, and management relied heavily on information provided by the project director without the benefit of independent verification and validation.

INVESTIGATIVE ACTIVITIES

The OIG Fraud Hotline exists so that anyone can easily report allegations of fraud, waste, and abuse. During FY 2015, the Investigations Unit received **178 hotline reports**, most of which required some level of follow-up. Allegations received from concerned employees, vendors, and the public, are either investigated by the OIG or referred to District administrators for investigation and disposition or to an outside agency better suited to handle the matter.

In FY 2015, the OIG issued **4 Reports of Investigation** and **8 Case Memorandums**. There were **63** other investigative matters that were still in progress at the end of the fiscal year. Case Memorandums are issued during a preliminary examination when it is determined that the facts of the case do not warrant a full investigation.

The OIG also issued a total of **77 Due Diligence Reports** related to charter schools, executive level employment, and contract and procurement matters. Due Diligence Reports are public record investigations requested by various District offices and divisions. Due diligence reports help to reduce the risks of doing business with outside entities, improve contract and employment decisions, help to avoid costly liability situations, and promote greater accountability and effectiveness.

During the fiscal year, **3 referrals** were made to the Public Integrity Division of the Los Angeles County District Attorney's Office that resulted in criminal investigations being initiated against District employees who misappropriated District funds.

The OIG issued **6 subpoenas** in FY 2015. The Inspector General is authorized by state statute to subpoena witnesses, administer oaths or affirmations, take testimony, and compel the production of all information that reasonably relates to an inquiry or investigation undertaken by the OIG.

B. BACKGROUND OF THE OIG

In August 1998, the Board of Education of the Los Angeles Unified School District began the process of establishing a department within the District whose mission would be to detect and prevent waste, fraud, and abuse in District operations and programs. Those efforts resulted in combining the District's auditors and investigators to form an Internal Audit and Investigations Department. In January 1999, the Board appointed the Department's first Director, and in February 2000, the Board adopted the name, Office of the Inspector General and changed the Director's title to Inspector General. The Board resolution which took this action stated:

"The Board wishes to instill a culture of excellence and professionalism in all aspects of the mission of the Los Angeles Unified School District and finds that an Inspector General approach to detecting and preventing waste, fraud and abuse in all District programs and operations enhances this culture of excellence."

Following the Board's action, the District secured legislative support for the OIG during the 2000 legislative session with the introduction of Senate Bill (SB) 1360 and its enactment on September 26, 2000, which granted the OIG statutory authority to conduct investigations. The legislature again addressed the issue in 2002 with Assembly Bill (AB) 2425 which amended Education Code Sections 35400 and 35401 and authorized the Inspector General to conduct audits, granted confidentiality to all investigative files and work-product, and extended the original sunset provision to January 1, 2015.

On February 19, 2014, Assembly member Adrin Nazarian (D-Sherman Oaks) introduced Assembly Bill (AB) 1825 to extend the current sunset provision of Education Code Sections 35400 and 35401 to January 1, 2025. AB 1825 was approved by the Governor on August 15, 2014.

Education Code Sections 35400 and 35401 grant the OIG statutory authority to perform some of its most critical functions. The current OIG legislation:

- Establishes the OIG's authority to (i) conduct audits and investigations and (ii) report matters to the local district attorney or the Attorney General for further action.
- Grants the OIG power to (i) subpoena witnesses, (ii) administer oaths or affirmations, (iii) take testimony, and (iii) compel the production of all information and documentary evidence deemed material and relevant to an inquiry or investigation undertaken by the inspector general.
- Provides confidentiality of (i) every investigation, including, but not limited to, all investigative files and work-product and (ii) the identity of the individual or individuals involved.

- Imposes penalties for (i) any disclosure of information by the inspector general or that office that was acquired pursuant to a subpoena, and (ii) any person that, after the administration of an oath or affirmation, states or affirms as true any material matter that he/she knows to be false.

The Association of Inspectors General, a standard setting body for Inspectors General, believes that the preferable way for an OIG to be established is by statute. This is the manner in which the District chose to give authority and credibility to its OIG.

THE OIG CHARTER

The OIG Charter outlines its authority and responsibilities and also provides that the Board expects and encourages the OIG to be an independent voice that expresses its views without censorship by District management. Education Code Section 35400 which authorizes the OIG to conduct audits and investigations is embodied in the Charter. The Education Code also authorizes the OIG to subpoena witnesses, administer oaths or affirmations, take testimony and compel the production of information. Some of the key Charter provisions authorize the Inspector General to:

- ❑ Audit and investigate any and all functions within the District, as well as private entities that do business with the District.
- ❑ Have full, free and unrestricted access to all District records, reports, audits, reviews, plans, projections, documents, files, contracts, memoranda, correspondence, data, media or information on audio/video/computer/tape/disk, or other materials of the District.
- ❑ Subpoena witnesses, administer oaths or affirmations, take testimony and compel the production of such books, papers, records and documents as may be deemed relevant to any inquiry or investigation undertaken.
- ❑ Hire staff or employ contract services within the scope of the budget authorized by the Board.

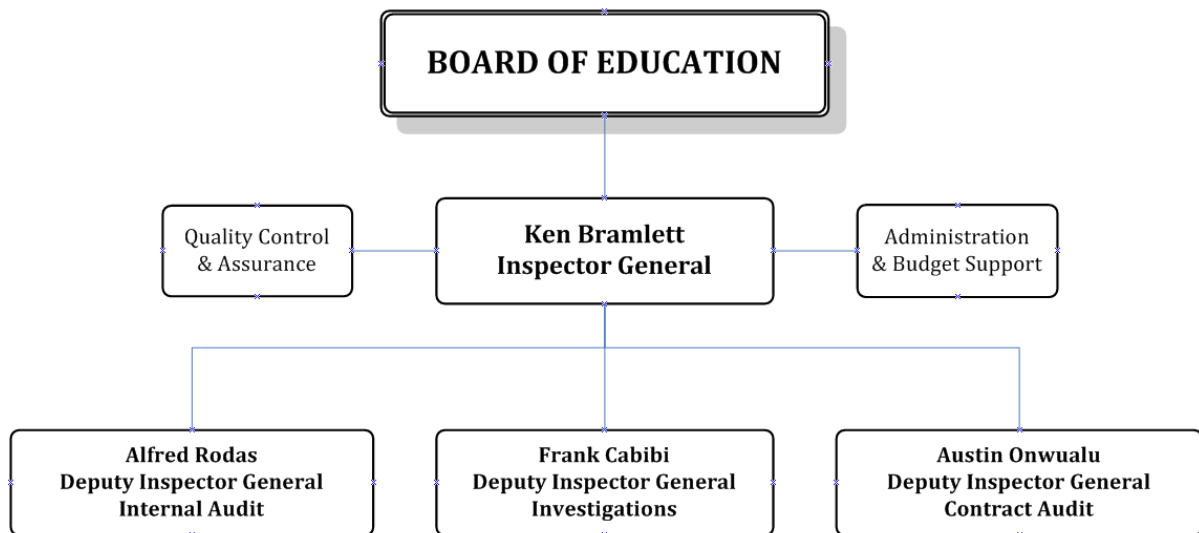
ORGANIZATIONAL STRUCTURE

The OIG reports directly to the Board to provide it with the necessary independence from District managers and staff who may attempt to protect the programs they administer or who may also be implicated. Accordingly, the responsibility for auditing and investigating is assigned to individuals following professional standards with clear independence from District management.

The OIG is comprised of auditors and investigators who have the authority to examine any and all functions within the District and those of private entities that do business with the District. The Internal Audit and Contract Audit Units, conduct performance audits and contract audits that cover a wide range of programs, processes, functions, areas and topics. The Investigations Unit conducts due diligence investigations and investigations of malfeasance by individuals. Due diligence investigations are conducted in support of the District's ongoing efforts to assess senior management applicant backgrounds as well as those of new charter school applicants. Malfeasance

investigations, which often result from Hotline allegations, sort out the truth about allegations of misconduct by District employees and contractors.

The Inspector General manages the OIG, and is appointed by the Board for specified terms that may be renewed at the Board's discretion at the conclusion of the assigned term. The Inspector General manages the OIG with the assistance of three Deputies. The basic organizational structure is set forth below.



BUDGET AND STAFF

The Inspector General is charged with managing the OIG. During FY 2015, the OIG had 52 authorized positions and a budget of \$4.3 million in general funds, \$2.8 million in bond funds, and approximately \$164,000 in workers compensation funds. The Inspector General is assisted in managing the OIG by three Deputy Inspectors General who oversee audit and investigative activities. The OIG is supported by administrative staff and internal quality control staff tasked with ensuring that all work performed adheres to professional standards.

The OIG is a highly educated professional staff where nearly all have at least a four-year degree, and most have either advanced degrees or one or more professional certifications in their areas of expertise. The staff also has a diligent work ethic and is committed to providing quality service to all elements of the District. Additionally, the ethnic diversity of the OIG is reflective of every major ethnic group present in the District.

In all of our work, the OIG seeks to provide the Board and District staff with independent and objective information about the operations of the District and of those who do business with it. The OIG's Vision and Mission statements guide our efforts as we seek to meet the objectives set forth in the OIG Charter that was created by the Board and to support the District in the achievement of its core mission.

AUDIT ACTIVITIES AND ORGANIZATION

The OIG is comprised of two audit units, an Internal Audit Unit and a Contract Audit Unit. The organization and activities of these audit units are described in more detail below.

Internal Audit Unit

The Internal Audit Unit conducts performance audits on District programs, processes and functions for efficiency and effectiveness to ensure that adequate internal controls are in place and to verify that the reviewed areas are in compliance with laws, regulations and District policies and procedures. Internal Audit also performs limited school reviews that provide information about best practices for school operations.

The Deputy Inspector General for Internal Audit manages the Internal Audit Unit with the assistance of Audit Managers who manage the audit staff assigned to internal audit projects. Audit Managers are key “strategic thinkers” and “subject matter experts” within the OIG. They serve as “issue area managers” or “program managers”, who during the development of the annual work plan provide key information about areas that are susceptible to waste, fraud or abuse, as well as opportunities for improving efficiency and effectiveness. They are also the main contacts with District staff, particularly senior management. They also track recommendations and ensure that follow-up audits are conducted when needed.

The Internal Audit Unit also includes Principal Auditors who are responsible for conducting, individually or with the assistance of other auditors, performance audits of critical and complex processes, programs and functions.

Contract Audit Unit

The Contract Audit Unit conducts audits of the District’s procurement system which include procurement contracts for goods and services as well as contracts for the construction and modernization program. The Unit is responsible for conducting pre-award and post-award audits of all contracts and also provides support to District procurement officials in areas such as conducting rate surveys, claims and litigation support. The Unit conducts audits of contracts to ensure that District vendors and contractors comply with the requirements of their contracts and that contracted funds, especially bond funds are expended as intended and that the District received what it paid for. Contract Audit activities also help to ensure that all District programs and Units using or managing bond funds have adequate internal controls in place.

The Deputy Inspector General for Contract Audit heads the Contract Audit Unit and is a direct report to the Inspector General. The Deputy manages the Contract Audit Unit with the assistance of a professional audit staff, an architect and administrative support staff.

Auditing Standards

The OIG audit units do their work primarily in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. The Internal Audit Unit also uses the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. The Contract Audit Unit also uses the Statement on Standards for Attestation Engagements and the Statement on Standards for Consulting Services issued by the American Institute of Certified Public Accountants.

Annual Risk Assessment Process

The OIG performs a global risk assessment in the spring of every year that is the foundation for the Work Plan that guides the OIG in deciding which projects to undertake the following year. In addition, the OIG performs periodic risk assessments throughout the fiscal year to ascertain what issues are the greatest risks to the District.

Annual Work Plan

The OIG audit units perform their work primarily in accordance with *Government Auditing Standards* that mandate that audit units operate pursuant to an annual work plan that identifies the specific areas of focus for an upcoming fiscal year and which must be approved by the Board. The annual work plan is a “working” document that is modified throughout the year as circumstances, priorities, and resource availability dictate. The work plan is available on our website.

Effective planning in the District requires extensive knowledge of the District’s mission and the programs and activities that implement that mission. Accordingly, the OIG instituted issue area monitoring to strengthen our internal coordination and overall planning process. Audit Managers play a key role in our planning process.

The work plan describes the work of the Internal Audit Unit, the Contract Audit Unit, and the Investigations Unit, respectively. Due to the differences in the type of work performed, each unit follows a format that is best suited for presenting their work in the work plan.

Auditor Credentials and Qualifications

All auditors have four-year degrees from accredited colleges or universities, and auditors assigned as contract auditors have a minimum of 3 years contract audit experience as Senior Auditors. Many of our auditors hold advanced degrees, licenses and certifications.¹

¹ Certified Internal Auditor; Certified Fraud Examiner; Certified Public Accountant; Certified Government Financial Manager; Certified Government Auditing Professional; Certified Financial Services Auditor; Master in Business Administration; Master in Information Systems; Master in Accountancy.

Additionally, members of the Internal Audit and Contract Audit Units are also active in professional organizations, such as the American Institute of Certified Public Accountants, Institute of Internal Auditors, Association of Certified Fraud Specialists, Association of Government Accountants, Association of Local Government Auditors, Association of Certified Fraud Examiners, and Information Systems Audit and Control Association. Staff of the Contract Audit Unit is also active in professional organizations such as the National Association of Construction Auditors.

External Assistance

Government Auditing Standards require that the staff assigned to conduct audits should collectively possess adequate professional proficiency for the tasks required. If the staff lacks that proficiency, the standards provide that an organization may need to employ personnel or hire outside consultants knowledgeable in such areas as accounting, statistics, law, engineering, etc.

During FY 2015, we retained the outside firms Vicente, Lloyd & Stutzman to provide forensic accounting services and BCA Watson Rice LLP to provide consulting services.

INVESTIGATIVE ACTIVITIES AND ORGANIZATION

The Investigations Unit investigates allegations of improper or illegal activities by District employees, contractors or other entities doing business with the District. The Investigations Unit also performs a variety of other services which are described in this section. Most of the investigative workload results from the receipt of allegations of improper activity. The Investigations Unit also receives referrals from the OIG audit sections. The remaining workload consists of proactive projects designed to prevent waste, fraud, and abuse.

The Deputy Inspector General for Investigations manages the staff and work of the Investigations Unit with the assistance of a Supervising Investigator.

Fraud Hotline - The OIG receives allegations of waste, fraud, and abuse from various sources, including mail, in person, email, by referral from other District departments and outside agencies, and the District's Fraud Hotline. The OIG Charter mandates that the Investigations Unit manage the District's Fraud Hotline. All reports received by the Fraud Hotline are reviewed and matters that warrant action are opened as investigations or referred to the proper District department for appropriate remediation. The OIG Fraud Hotline numbers are (213) 241-7778 and (866) LAUSD-OIG.

General Investigations - Reports of Investigation are issued upon completion of an investigation and summarize the evidence disclosed during the investigation. Some investigations are concluded by a Case Memorandum when it is determined that the facts of the case do not warrant a full investigation. The Education Code requires that every investigation, including all investigative files and work product, be kept

confidential. The OIG is precluded from investigating allegations that involve crimes against children. Allegations involving crimes against children are referred to the appropriate law enforcement agency.

Due Diligence Reports - The OIG has taken a proactive role to ensure the District contracts with responsible vendors and approves responsible charter school operators. Investigative staff performs public record investigations, commonly referred to as due diligence reports. These reports are requested by various District offices and divisions. Due diligence reports help to reduce the risks of doing business, improve contract and employment decisions, and promote greater accountability and effectiveness.

Subpoenas - Education Code Sections 35400 and 35401 grant the OIG the authority to conduct investigations, subpoena witnesses, administer oaths or affirmations, take testimony, and compel the production of all information deemed material, reasonable, and relevant to any OIG inquiry or investigation.

Whistleblower Protection Policy - The OIG investigates Whistleblower Protection Policy complaints. The Board of Education approved the Whistleblower Protection Policy on February 12, 2002. The Whistleblower Protection Policy protects District employees who make allegations of improper governmental activity from retaliation or reprisal from the District. To assure the reporting of any activity that threatens the efficient administration of the District, reports that disclose improper governmental activities shall be kept confidential.

Investigating Standards

The Investigations Unit conducts its investigations according to the *Principles and Standards for Offices of Inspectors General*. The Association of Inspectors General drafted these principles and standards based on the quality standards for Federal Inspectors General issued by the President's Council on Integrity and Efficiency. The principles and standards represent generally accepted principles, quality standards, and best practices applicable to federal, state, and local offices of Inspectors General.

Investigator Credentials and Qualifications

The staff of the Investigations Unit possesses a variety of investigative backgrounds and skills. The majority of investigators have four-year degrees from accredited colleges or universities, and many also hold advanced degrees, as well as professional certifications and accreditations, such as Certified Public Accountant (CPA) and Certified Fraud Examiner (CFE). The staff includes former employees of investigative or regulatory agencies such as the U.S. Department of Justice Office of the Inspector General (DOJ-OIG), U.S. Environmental Protection Agency (EPA), Internal Revenue Service Criminal Investigations Division (IRS-CID), U.S. Federal Probations, Los Angeles Police Department, Los Angeles County Sheriff's Department, and private and corporate firms performing Private Investigations, Loss Prevention Fraud Investigations, and Public Accountancy (CPA) functions.

C. ANALYSIS OF WORK PRODUCTION

FISCAL YEAR-END 2015					
	Projects Planned*	Projects Completed	In Progress **	Carried Over to FY 2016***	Canceled
Internal Audit	59	39	7	7	6
Contract Audit	62	43	14	1	4
Investigations	158	95	63	-	-

* *Projects Planned* include additional project requests received by the OIG during the fiscal year.

** *In progress* includes projects that were started in FY 2015 and were near completion at the end of the fiscal year.

****Carried Over to FY 2016* may include (i) projects that were planned but not started in FY 2015 and (ii) projects that were started but not completed in FY 2015.

The following sections provide additional analysis of the work produced by each operational unit of the OIG.

Internal Audit Work Analysis

The Internal Audit Unit began the fiscal year with 19 planned projects that were listed in the FY 2015 annual work plan, but this number increased throughout the fiscal year as a result of new requests for services, as well as the inclusion of carry over projects from prior fiscal years. During fiscal year 2015, a total of 39 projects were completed, 31 of which were the result of requests for our services from various stakeholders, including senior management and school principals.

There were seven projects in various stages of completion as of June 30, 2015 that were carried over to FY 2016. Also, during FY 2015, seven projects planned for the year were cancelled due to reprioritization of our projects.

Contract Audit Work Analysis

The Contract Audit Unit began the fiscal year with 35 projects that were authorized by the FY 2015 annual work plan. In addition, there were 11 projects that remained open from prior fiscal years.

As the fiscal year progressed, FSD and Procurement requested additional projects, both anticipated and not anticipated. By the end of the fiscal year, 62 projects were ultimately authorized consisting of 51 new projects and 11 ongoing projects from prior years.

The following is a summary of the Unit's fiscal year activity ending June 30, 2015:

FY 2015 Work Plan	Original Plan	Updated Plan*	Projects Completed	In Progress	Carryover to FY15	Canceled
Construction Contract	10	9	6	1	1	1
Prof Services Contract	10	10	2	7	0	1
Technical Evaluation	6	6	2	2	0	2
As-Needed	3	20	19	1	0	0
Carryover Project	6	6	3	3	0	0
FY 2015 Subtotal	35	51	32	14	1	4
Prior Year Projects	11	11	11	0	0	0
FY 2015 Grand Total	46	62	43	14	1	4

** The Updated Plan column includes the additional projects requested by FSD and Procurement throughout the year.*

During the annual risk assessment process for FY 2016, the OIG made an assessment of the projects that had not been initiated during FY 2015. Based on this assessment, 1 project was carried over to the FY 2016 annual work plan. The remaining projects that were not identified as having the level of risk required to be carried over to FY 2016 will no longer be performed unless they are requested by the Board or District Management and sufficient OIG resources are available.

During the year, we prioritized completing the audits that we received special requests for as well as completing the ongoing audits from prior years. As a result, we issued 43 reports.

Investigative Work Analysis

The following is a summary of the Investigations Unit's fiscal year activity ending June 30, 2015.

FY 2015 Work Production by Project Type	
Type of Project	Completed/ Issued
Report of Investigation	4
Case Memorandum	8
Charter School Due Diligence	48
Contractor/Vendor Due Diligence	25
Executive Level Pre-Employment Due Diligence	4
Subpoena	6
Total Investigative Matters	95

FY 2015 Hotline Calls Summary	
Disposition	# of Calls
Referred	90
Referred to Audit Unit	1
Not Referred	51
Preliminary Investigation	16
Investigation	3
Pending Evaluation	17
Total Hotline Calls	178

As of June 30, 2015, there were 63 open investigative and due diligence matters.

D. ECONOMIC IMPACT

The OIG is committed to identifying and reducing waste, fraud, and abuse and to identifying opportunities for achieving greater economy, efficiency, and effectiveness that may result in the savings or recovery of funds that can be used toward student-related goals. The OIG classifies monetary benefits into the following major categories: restitution, settlements, funds put to better use, questioned costs and construction cost savings.

Restitution is the voluntary or court-ordered repayment of District funds that were obtained through fraudulent means. Settlements are formal legal agreements where funds are awarded to resolve damage claims. Funds put to better use incorporate recommendations that may result in more efficient use of District funds. Questioned costs are costs that are disallowed or unsupported and are primarily incurred on contracts, grants, and other forms of cooperative agreements. Construction cost savings are funds returned to the District from audits of 17406 contracts. These funds relate to savings from unused allowances and contingency funds imbedded in the contracts. OIG investigative activities may also result in monetary benefits such as fines and recoveries.

Quantifying the monetary value of OIG services for any one year often means assigning value in a given year for efforts that often span over several years. During FY 2015, the OIG identified over \$4.4 million in monetary benefits through its audits, investigations, and special reviews.

<u>Report Type</u>	<u>Monetary Benefits</u>
Internal Audit	\$3,349,196
Contract Audit	\$1,136,878
Investigation	*
<hr/>	
TOTAL	\$4,486,074

*During FY 2015, the Investigations Unit identified funds that were gained through improper or illegal means. However, unlike audit savings, these funds cannot be realized or estimated with any accuracy until the case has been adjudicated and restitution has been ordered. Restitution will be reported in the year it is ordered and received by the District.

E. CONCLUSION

This report is intended to provide information that informs the reader about the OIG, who we are, how we are organized, what we accomplished in FY 2015, and what benefits we brought to the District. FY 2015 was a productive year in which the OIG demonstrated both a desire and ability to be highly proactive and responsive to stakeholder concerns. OIG staff takes pride in being an office that contributes, in a significant manner, to the quality of education provided by the Los Angeles Unified School District.

We thank the Board and the Superintendent and his staff for their support and cooperation, and we look forward to continuing this important work.

APPENDIX 1

SIGNIFICANT REPORT SUMMARIES

This appendix includes summaries of significant audits and investigations that are not discussed in Section A of this report.

Internal Audits

New Village Charter School – The primary objective of this audit was to determine whether New Village Charter School was adhering to the conditions, standards and procedures outlined in its Charter Agreement with the District. Our audit found that the school was in compliance with many but not all terms and conditions of its charter agreement. For example, our audit noted control weaknesses in governance structure, employment documentation and other financial control issues related to cash receipts and deposits and expenditures/disbursements processes. We provided New Village Charter High School’s Board of Directors with 11 recommendations to ensure full compliance with the charter agreement and to enhance the current system of internal controls. New Village Charter School agreed with all of our recommendations and was taking steps to address our recommendations.

White Fleet Vehicles Management and Maintenance – The main objective of this project was to evaluate whether cost effectiveness was achieved in maintaining older trucks, vans and administrative automobiles, as well as to evaluate the adequacy of the replacement plan for such vehicles. We found that although steps were being taken to create a replacement program, this process needed to be finalized. Also, the Fleet Maintenance Section of the Transportation Division needed to implement and maintain Key Performance Indicators, prepare lifecycle cost analyses and present the option of the centralization of fleet management to reduce inefficiency in the use of District owned vehicles.

Contract Audits

We conducted pre-award rate reviews of 15 firms proposing to provide **geotechnical engineering support services** to the District. The rate reviews encompassed reviewing the firms’ current overhead rates, direct labor rates, and testing rates.

We performed an incurred cost audit of the contract with A&B Construction, Inc. for the **University Senior High School** HVAC upgrade project. The objectives of the audit were to determine whether (i) the costs incurred are allowable and adequately supported in accordance with the contract terms and conditions and (ii) the contractor provided the services and met the deliverables in accordance with the contract. Our audit found that A&B Construction, Inc. complied with the contract terms and conditions, and provided the contracted services in accordance with the contract.

We conducted an audit of the Development and Construction Agreement with Davis Reed Construction, Inc. for the **68th Street ES** New Assembly/Food Services Building. The objectives of our examination are to determine whether (i) the contingency/allowance disbursements and change order costs are adequately supported and allowable according to the terms of the contract, and (ii) the contract's current approved purchase price was fairly stated in all material respects. The result of our audit disclosed no significant findings or questioned costs.

We conducted an audit of the contract with **Hirsch Pipe and Supply** for providing drinking fountains, water cooler parts and safety equipment. The objectives of the audit were to determine whether (i) the unit prices billed complied with the contract's terms and (ii) the items billed were authorized and received by the District. The result of our audit disclosed questioned costs totaling \$28,682.

Investigations

The Education Code requires that every investigation, including all investigative files and work product be kept "Confidential."

Violation of Policy - An allegation was received stating that a school employee was inappropriately receiving mileage reimbursement. The investigation substantiated that the employee submitted mileage reports that investigators could not confirm or refute the legitimacy of the incurred expenses. However, investigators found that the employee submitted the reimbursement claims and authorized his own claim form for payment. The investigation found that discretion was not exercised despite the form indicating that the claimant and the authorized person approving the payment were one in the same.

Conflict of Interest - An allegation was received from the Intensive Support and Innovation Center regarding a conflict of interest involving an employee. The investigation found that the employee had engaged in promoting a business, and assisted in securing contractual agreements between the business and the District. The employee had a financial interest in the business and was a contractor for the business. The investigation determined that the employee's resume submitted to the District disclosed the employment with the business. The employee learned of the investigation then submitted the Statement of Economic Interest disclosing the interest in the business. During the ongoing investigation, the employee was withdrawn from the District for performance issues.

Misappropriation of Funds - An allegation was received from the Intensive Support and Innovation Center regarding misappropriation of funds by a District employee. The investigation found that the employee engaged in unauthorized fundraising to purchase school related items and violated policies. The employee also failed to properly account and administer monies paid by students and mismanaged fundraising monies to pay for the intended purchases. The investigation was unable to support that the employee

willfully intended to misappropriate funds. However, the employee's contract was not renewed by the District.

Conflict of Interest - An allegation was received from the Student Safety Investigation Team regarding possible conflict of interest issues and policy violations involving a District employee. Information indicated the employee had been operating two personal businesses on District time and utilizing District resources for his personal businesses. The investigation located a machine belonging to the employee. However, the results of the investigation did not support the allegations of policy violations or a conflict of interest.

Misappropriation of Funds - An allegation was received from a complainant stating a District employee was misusing P-card funds, imprest funds and overtime abuse. The investigation disclosed that the employee did not have access to the P-card funds therefore could not have misused the funds. The imprest fund was reviewed and all accounting was found properly supported with authorized signatures. Purchase Orders were reviewed and no improprieties were found. The overtime was attributed to a changing system of office. The complainant was unable to support the allegation of abuse or impropriety.

Whistleblower - An allegation was received from a whistleblower alleging that an employee was retaliated against for reporting child abuse allegation and was threatened with suspension and dismissal. District administrators provided OIG investigators with information that support a false allegation against the employee. Additionally, administrators informed the OIG that the Los Angeles County Sheriff's Department had conducted an investigation into the matter. Although uncertain of the findings, Sheriff's officials gave clearance to District officials to conduct an administrative investigation. District officials informed OIG investigators of their intent to pursue dismissal proceedings against the complainant. The investigation determined that the complainant did not meet the requirements for whistleblower status.

Violation of Policy - An allegation was received from an Educational Service Center regarding a Principal misusing public funds and violating District policies. The investigation substantiated violations of misusing school funds. In addition, the Principal allowed the use of school property by a private business. The District was unaware of the private business providing compensation in the form of bartering.

APPENDIX 2

REPORTS ISSUED INDEX

<u>Report Date</u>	<u>Report Number</u>	<u>Report Title</u>
<i>Internal Audit Reports</i>		
07/29/14	OA 14-521	Inventory Control of Computer Purchases
08/04/14	LSR 14-070	Westchester Enrich Science Magnet
09/09/14	LSR 14-071	Ramona Elementary School
09/10/14	OA 14-523	Inventory Control of Mobile Devices to Support CCTP
09/17/14	SSR 14-072	Special Review - San Fernando Middle School
09/27/14	LSR 14-073	Aragon Elementary School
10/07/14	LSR 14 074	Vista Middle School
11/07/14	LSR 14-075	Gridley Elementary School
11/21/14	OA 14-524	Traffic Safety & General Safety at Schools
12/01/14	LSR 14-077	Stonehurst Elementary School
12/05/14	SSR 14-076	James Garfield High School
12/08/14	OA 14-525	New Village Charter School
12/16/14	LSR 14-078	Huntington Drive Elementary School
12/16/14	Memo Rpt	Special Education Graduation Rate
12/22/14	LSR 14-079	Baldwin Hills Elementary School
01/27/15	LSR 14-080	Logan Elementary School
02/25/15	LSR 15-081	Luther Burbank Middle School
02/27/15	LSR 15-082	Benjamin Franklin High School
03/11/15	Confidential	Elementary School
03/13/15	LSR 15-084	Albion Elementary School
03/15/15	LSR 15-083	Olive Vista Middle School
03/23/15	LSR 15-085	Euclid Avenue Elementary School
03/30/15	OA 15-528	Vista Charter Middle School
04/13/15	LSR 15-086	Multnomah Elementary School
04/16/15	LSR 15-087	Marshall High School
04/19/15	LSR 15-088	Carthay School of Environmental Studies
04/23/15	OA 15-529	PUC Lakeview Charter Academy
04/27/15	OA 15-530	School Crisis Teams 2
05/11/15	OA 15-527	City of Los Angeles Election Billing
05/15/15	LSR 15-089	Alexander Science Center School
05/15/15	OA 15-526	Annual Fire Alarm Systems Testing and Certification
05/26/15	OA 15-535	White Fleet - Maintenance of an Aging fleet
06/03/15	LSR 15-090	Central High School
06/16/15	OA 15-531	Election Invoice No. 15-2008 from the County of Los Angeles
06/23/15	LSR 15-091	Audubon Middle School
06/29/15	OA 15-532	Small Business Enterprise Program
06/30/15	Confidential	Elementary School
06/30/15	SSR 15-093	Stanford Middle School
06/30/15	Confidential	Charter School

2015 OIG Annual Report to the Board of Education

Contract Audit Reports

07/15/14	CA 14-987	Tilden-Coil Constructors, Contract No. 1110111
08/04/14	CA 14-988	#1 Academia Servicio de Tutoria, Contract No. 1300110
08/11/14	CA 14-989	Alta Environmental, Contract No. 1290029
08/20/14	CA 14-991	Consolidated Service Disposal, LLC, Contract Nos. 1290021 and 1290093
08/22/14	CA 14-990	Vector Resources, Inc., Contract No. 1200307
09/02/14	TE 14-046	Byrd MS
09/25/14	CA 14-992	Master Services Agreement (MSA) Contract Management
09/25/14	TE 14-047	M&O Assessing the Effectiveness of Maintenance Services
10/01/14	CA 14-993	Davis/Reed Construction, Inc., Contract No. 1210087
10/08/14	CA 14-994	W.E. O'Neil Construction Company of California, Contract No. 1210063
10/27/14	CA 15-995	Frederick Towers, Inc., Contract No. 1310004
11/17/14	CA 15-996	MiSiS
11/18/14	CA 14-997	After School All-Stars, Contract No. 1000042
11/19/14	CA 14-998	Boys & Girls Club of L.A. Harbor, Contract No. 1000044
11/24/14	CA 14-999	Food Services Categorical Partnering Program
12/04/14	CA 14-1000	Apple, Inc., Contract No. 0950028
12/04/14	CA 15-1001	Schoolology, Inc., RFP # 200000170
12/04/14	CA 15-1002	Instructure, Inc., RFP # 200000170
01/15/15	CA 15-1003	First Student, Inc., Contract No. 1450014
02/24/15	CA 15-1004	AVA Builders, Contract No. 1310106
02/25/15	CA 15-1005	Geotechnical Professionals, Inc., RFQ No. R-14046
02/25/15	CA 15-1006	Group Delta Consultants, Inc., RFQ No. R-14046
02/25/15	CA 15-1007	Gorian and Associates, Inc. RFQ No. R-14046
02/25/15	CA 15-1009	AMEC, RFQ R-14046
02/26/15	CA 15-1008	Koury Geotechnical Services, Inc., RFQ R-14046
03/02/15	CA 15-1010	RMA Group, Inc. RFQ R-14046
03/02/15	CA 15-1011	Kleinfeld, RFQ No. R-14046
03/02/15	CA 15-1012	Geotechnologies, Inc., RFQ No. R-14046
03/02/15	CA 15-1013	GeoConcepts, Inc., RFQ No. R-14046
03/03/15	CA 15-1014	The Converse Professional Group, RFQ No. R-14046
03/04/15	CA 15-1018	Southwest Inspection and Testing, Inc., RFQ No. R-14046
03/06/15	CA 15-1016	Geocon West, Inc., RFQ No. R-14046
03/09/15	CA 15-1015	Smith-Emery, RFQ No. R-14046
03/09/15	CA 15-1017	Ninyo & Moore Geotechnical & Environmental Sciences Consultants, RFQ No. R-14046
03/09/15	CA 15-1019	AECOM, RFQ No. R-14046
03/30/15	CA 15-1020	Hensel Phelps Construction Company
03/30/15	CA 15-1021	Arc, Contract No. 1000049
03/31/15	CA 15-1022	Special Inspection and Material Testing Rate Study
04/24/15	TE 15-048	Seismic Mitigation
06/11/15	CA 15-1023	A&B Construction, Inc., Contract No. 1310001
06/19/15	CA 15-1024	AP Construction, Contract No. 1310010
06/19/15	CA 15-1026	PCN3, Contract No. 1310007
06/23/15	CA 15-1025	Five Star Gourmet Foods, Inc., Contract No. 1200019

Investigative Reports

09/03/14	14-225	High School Administrators; Violation of District Policy
09/05/14	14-180	Director; Conflict of Interest
09/23/14	15-022	Financial Analyst; Payroll Fraud and Violation of Policy
09/29/14	14-117	HR Cooperation; Violation of District Policy
09/29/14	14-182	Whistleblower Complaint
10/30/14	15-011	El School Principal; Violation of District Policy
11/06/14	15-038	Middle School Principal; Violation of Ethics Code
11/12/14	15-051	School Facilities Attendant; Conflict of Interest
02/11/15	13-175	Former Local District # 2; P-Card and Overtime Abuse
05/11/15	15-043	High School Teacher; Violation of District Policy
04/27/15	14-174	Teacher; Violation of "housed" Agreement
06/09/15	14-302	High School Teacher; Misuse of District Property

APPENDIX 3

DISTRIBUTION LIST

Board of Education
Bond Oversight Committee
Executive Officer of the Board
Superintendent
Chief Deputy Superintendent
General Counsel

Know about fraud, waste or abuse?

Tell us about it.

Maybe you are a School District Employee, or maybe you are a private citizen. Either way, you are a taxpayer.

Maybe you know something about fraud, or waste, or some other type of abuse in the School District.

The Office of the Inspector General has a hotline for you to call. You can also write to us.

If you wish, we will keep your identity confidential. You can remain anonymous, if you prefer. And you are protected by law from reprisal by your employer.

Call the hotline:

**(213) 241-7778
or
(866) LAUSD-OIG**

Write to us:

**Fraud Hotline Center
333 S. Beaudry Ave., 12th Floor
Los Angeles, CA 90017**

<http://achieve.lausd.net/oig>